

BUSINESS SITUATION

This article was prepared by Daniel Larkins and Ralph W. Morris.

REAL gross domestic product (GDP) increased 5.2 percent in the second quarter of 2000, according to the "advance" estimates of the national income and product accounts (NIPAs), after increasing 4.8 percent (revised down from 5.5 percent) in the first quarter (table 1 and chart 1).¹ In contrast to the step-up in real GDP, growth of real final sales of domestic product slowed sharply, to 4.2 percent from 6.7 percent (revised down from 7.1 percent), largely reflecting a sharp slowdown in consumer spending.

The revision to the first-quarter estimates resulted from the annual revision of the NIPAs; in general, the effect of the annual revision was small,

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996 = 100) and as chained (1996) dollars. Price indexes (1996 = 100) are also calculated using a chain-type Fisher formula.

and the overall picture of the economy in recent years was not much changed.²

Real GDP growth in the second quarter was substantially above its 3.7-percent average rate for the current economic expansion (which began in the second quarter of 1991); growth had also been above average in the three preceding quarters. Nevertheless, GDP increased less than domestic demand (that is, gross domestic purchases) for the sixth consecutive quarter, as growth in imports (a component of domestic demand) continued to outpace growth in exports (a component of domestic output).

The price index for gross domestic purchases slowed to a 2.2-percent increase in the second

2. See "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1997-99, and Quarterly Estimates, 1997:I-2000:I" in this issue.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

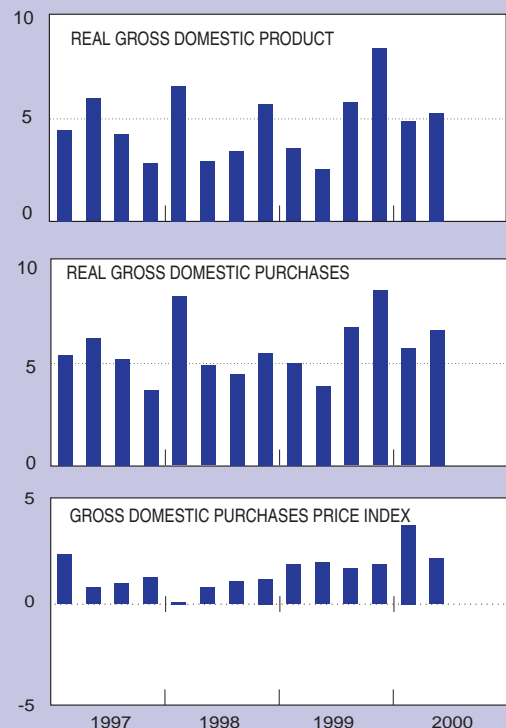
	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999		2000	
		2000	1999	2000	2000	III	IV	I	II
	II	III	IV	I	II				
Gross domestic product	9,308.8	122.6	178.3	107.7	117.0	5.7	8.3	4.8	5.2
Less: Exports of goods and services	1,104.2	25.0	25.8	16.4	19.4	10.2	10.3	6.3	7.3
Plus: Imports of goods and services	1,520.3	53.0	35.7	40.8	58.6	16.9	10.7	12.0	17.0
Equals: Gross domestic purchases	9,695.8	147.1	187.4	129.5	152.2	6.6	8.4	5.6	6.5
Less: Change in private inventories	60.3	26.0	41.8	-44.3	23.7	.....	.....	.....	.....
Nonfarm	54.0	29.4	29.5	-40.0	21.0	.....	.....	.....	.....
Farm	6.3	-3.9	12.9	-4.3	2.7	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,629.0	121.3	147.6	169.5	129.1	5.5	6.6	7.5	5.6
Personal consumption expenditures	6,259.6	73.6	87.2	112.5	46.1	5.0	5.9	7.6	3.0
Durable goods	889.4	15.7	25.6	46.4	-8.8	8.0	13.0	23.6	-3.9
Nondurable goods	1,860.9	21.1	32.0	26.7	16.1	4.9	7.4	6.0	3.5
Services	3,523.6	37.7	31.9	44.2	36.4	4.5	3.8	5.2	4.2
Gross private domestic fixed investment	1,793.6	30.7	28.8	64.3	62.7	7.8	7.2	16.4	15.3
Nonresidential fixed investment	1,426.2	35.0	29.3	63.5	60.9	11.8	9.5	21.0	19.1
Structures	282.5	-4.1	6.0	13.4	8.5	-6.2	9.7	22.3	13.0
Equipment and software	1,154.2	41.6	23.5	50.3	53.8	18.0	9.5	20.6	21.0
Residential investment	375.0	-2.9	.5	2.9	3.6	-3.1	.5	3.2	3.9
Government consumption expenditures and gross investment	1,588.2	17.9	31.7	-4.4	23.1	4.8	8.5	-1.1	6.0
Federal	559.1	8.9	17.1	-21.0	22.0	6.9	13.2	-14.2	17.5
National defense	355.3	10.1	10.5	-19.4	13.8	12.3	12.6	-19.8	17.2
Nondefense	203.6	-1.1	6.6	-1.7	8.2	-2.2	14.4	-3.3	17.8
State and local	1,028.7	8.9	14.8	16.2	1.3	3.7	6.1	6.6	.5
Addendum: Final sales of domestic product	9,242.1	96.9	138.7	147.5	94.1	4.5	6.4	6.7	4.2

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "National Income and Product Accounts Tables" in this issue.)

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

quarter after increasing 3.8 percent. Real disposable personal income increased 3.4 percent after increasing 1.9 percent. The personal saving rate was unchanged at 0.2 percent.

The largest contributors to the second-quarter increase in real GDP were private nonresidential fixed investment and personal consumption expenditures (PCE) (table 2). Nonresidential fixed investment increased 19.1 percent—double its average growth rate of 9.5 percent over the expansion—and contributed 2.4 percentage points to GDP growth; as in the first quarter, most of the increase was accounted for by purchases of equipment and software. PCE increased 3.0 percent in the second quarter and contributed 2.1 percentage

points to the growth in GDP; expenditures for services accounted for most of the PCE growth. Government consumption expenditures and gross investment (government spending) and inventory investment both contributed about 1.0 percentage point to GDP growth. The increase in GDP was damped by an increase in imports that subtracted 2.3 percentage points from the GDP growth rate.

The small step-up in GDP growth from the first quarter to the second was more than accounted for by upturns in inventory investment and in government spending. The effect of these upturns was partly offset by a sharp slowdown in PCE growth from 7.6 percent to 3.0 percent. The average rate of growth of PCE over the current expansion is 3.8

Second-Quarter 2000 Advance GDP Estimate: Source Data and Assumptions

The “advance” GDP estimate for the second quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers’ shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in private inventories: Manufacturing and trade

inventories (2) and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Federal outlays (3), State and local construction put in place (2), State and local employment (3), and the employment cost index for the quarter;

GDP prices: Consumer price index (3), producer price index (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available from STAT-USA/Internet, a service of the U.S. Department of Commerce, and from BEA’s Web site at <www.bea.doc.gov>.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 2000:II

[Billions of dollars, seasonally adjusted at annual rates]

	2000					
	January	February	March	April	May	June ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	202.5	215.5	218.0	218.3	225.9	232.0
Equipment and software:						
Manufacturers’ shipments of complete civilian aircraft	35.8	28.2	16.7	41.3	51.1	37.9
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	236.8	240.7	241.0	239.5	238.4	238.5
2-or-more-unit structures	28.5	28.0	29.6	29.1	28.3	28.3
Change in private inventories, nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	43.6	79.5	26.2	52.8	78.4	36.8
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	723.9	730.7	750.2	750.8	743.6	764.4
Excluding nonmonetary gold	715.1	719.6	741.2	747.5	741.1	759.4
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	1,132.5	1,146.4	1,195.9	1,193.5	1,189.6	1,215.8
Excluding nonmonetary gold	1,124.4	1,135.8	1,186.0	1,191.1	1,187.3	1,210.8
Net exports of goods (exports less imports)	-408.6	-415.7	-445.8	-442.7	-446.0	-451.4
Excluding nonmonetary gold	-409.2	-416.2	-444.8	-443.7	-446.2	-451.4
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	166.6	159.7	164.9	160.6	156.1	158.0

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

percent; prior to the second quarter, PCE had increased at above-average rates for nine consecutive quarters.

Motor vehicles.—Real motor vehicle output decreased 1.5 percent in the second quarter after

increasing 0.3 percent in the first (table 3). The small downturn was accounted for by auto output; truck output increased more than in the first quarter. Final sales of motor vehicles to domestic purchasers decreased 15.6 percent after increasing 20.1 percent.

Purchases of motor vehicles by consumers (PCE) and purchases by businesses (private fixed investment) decreased after increasing.

Consumer purchases of motor vehicles turned down but remained at a high level. Factors frequently considered in analyses of consumer spending were generally favorable in the second quarter. The growth in real disposable personal income picked up to 3.4 percent from 1.9 percent, and the unemployment rate decreased to 4.0 percent from 4.1 percent. The Index of Consumer Sentiment (a measure prepared by the University of Michigan's Survey Research Center) remained at a high level. Factors specific to motor vehicle purchases were less favorable; for example, interest rates on new-car loans at commercial banks and prices of new motor vehicles increased.

Both imports and exports of motor vehicles decreased in the second quarter after increasing in the first.

Motor vehicle inventory investment increased after decreasing; the increase mainly reflected a swing in truck inventories from liquidation to accumulation. The inventory-sales ratio for new do-

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1999		2000	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product	5.7	8.3	4.8	5.2
Percentage points at annual rates:				
Personal consumption expenditures	3.43	4.08	5.03	2.08
Durable goods .....	.64	1.04	1.79	-.32
Nondurable goods .....	.97	1.47	1.19	.72
Services	1.81	1.58	2.04	1.68
Gross private domestic investment	2.50	3.04	.92	3.57
Fixed investment	1.33	1.26	2.68	2.58
Nonresidential	1.47	1.22	2.54	2.41
Structures	-.19	.29	.63	.40
Equipment and software	1.66	.94	1.91	2.01
Residential	-.13	.03	.14	.17
Change in private inventories	1.17	1.78	-1.76	.99
Net exports of goods and services	-1.08	-.37	-.94	-1.51
Exports	1.05	1.09	.67	.78
Goods	1.13	.94	.46	.77
Services	-.08	.15	.21	.01
Imports	-2.13	-1.45	-1.61	-2.29
Goods	-1.99	-1.28	-1.28	-1.94
Services	-.13	-.17	-.33	-.35
Government consumption expenditures and gross investment .....	.84	1.50	-.18	1.05
Federal .....	.41	.79	-.93	.98
National defense .....	.46	.48	-.86	.61
Nondefense	-.05	.30	-.07	.37
State and local .....	.43	.71	.75	.07

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

Table 3.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1999		2000	
	2000	1999	2000						
	II	III	IV	I	II	III	IV	I	II
Output	357.9	10.3	7.0	0.3	-1.3	12.7	8.2	0.3	-1.5
Autos	123.3	-2.9	5.1	-.1	-7.8	-8.6	17.0	-.4	-21.7
Trucks	234.0	13.0	2.0	.4	6.3	26.7	3.7	.7	11.4
Less: Exports	25.9	-.7	.7	.5	-2	-10.1	12.4	8.0	-2.6
Autos	16.4	-1.1	.7	.2	0	-24.4	19.5	3.9	-.2
Trucks	9.5	.4	0	.3	-2	21.2	1.6	15.1	-6.5
Plus: Imports	121.0	8.0	.5	3.3	-1.3	32.3	1.7	11.7	-4.0
Autos	103.0	7.9	.1	3.0	1.4	40.0	.5	12.7	5.8
Trucks	18.1	.1	.4	.3	-2.6	1.4	8.1	7.0	-42.1
Equals: Gross domestic purchases	453.6	19.2	6.7	3.2	-2.4	19.2	6.2	2.8	-2.1
Autos	210.7	6.6	4.4	2.8	-6.2	13.6	8.6	5.4	-10.9
Trucks	242.7	12.6	2.4	.4	3.7	24.5	4.1	.7	6.3
Less: Change in private inventories	13.8	8.1	5.2	-16.4	15.8				
Autos	1.5	8.6	2.9	-4.3	1.1				
Trucks	11.2	0	2.3	-11.2	13.4				
Equals: Final sales to domestic purchasers	439.4	10.9	1.2	20.5	-19.1	10.6	1.1	20.1	-15.6
Autos	209.3	-1.9	1.5	7.1	-7.3	-3.5	2.8	14.2	-12.8
Trucks	230.1	12.6	-.2	13.4	-11.8	25.5	-.4	25.5	-18.1
Addenda:									
Personal consumption expenditures	266.6	-1.7	3.5	17.4	-11.7	-2.6	5.6	29.5	-15.8
Private fixed investment	160.1	10.1	-3.6	4.4	-6.7	28.7	-8.4	11.4	-15.2
Gross government investment	12.8	2.3	1.3	-1.3	-6	114.7	45.2	-31.6	-16.7

NOTE.—See note to table 1 for an explanation of chained (1996) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1996) dollar levels for

motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.4 and 8.9B.

mestic autos, which is calculated from units data, increased to 2.2 at the end of the second quarter from 2.1 at the end of the first; the traditional industry target is 2.4.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 2.2 percent in the second quarter after increasing 3.8 percent in the first (table 4). The first-quarter increase reflected an acceleration in energy prices and a pay raise for Federal civilian and military personnel.³ In the second quarter, energy prices decelerated. Prices of gross domestic purchases less food and energy increased 1.8 percent in the second quarter after increasing 2.8 percent in the first (chart 2).

PCE prices increased 2.3 percent after increasing 3.5 percent. Prices of PCE energy goods and services increased 13.4 percent, much less than in the first quarter.⁴ PCE food prices increased 2.3 percent, about the same as in the preceding three quarters. Prices of PCE less food and energy increased 1.7 percent after increasing 2.2 percent.

Prices of private nonresidential fixed investment increased 1.4 percent after increasing 1.8 percent.

3. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

4. "Energy goods and services" consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

Table 4.—Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers]

	1999		2000	
	III	IV	I	II
Gross domestic product	1.1	1.6	3.3	2.5
Less: Exports of goods and services	1.1	2.7	1.9	1.8
Plus: Imports of goods and services	6.0	5.3	5.6	-2
Equals: Gross domestic purchases	1.7	1.9	3.8	2.2
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	1.7	2.0	3.8	2.2
Personal consumption expenditures	1.9	2.2	3.5	2.3
Food	2.1	2.3	2.4	2.3
Energy goods and services ¹	13.5	11.7	35.1	13.4
Other personal consumption expenditures	1.3	1.7	2.2	1.7
Private nonresidential fixed investment	-1.5	-8	1.8	1.4
Structures	2.9	3.6	4.7	3.2
Equipment and software	-2.9	-2.1	.9	.8
Private residential investment	3.4	2.6	5.2	2.2
Government consumption expenditures and gross investment	3.1	3.0	6.4	2.4
Federal	1.9	2.2	7.7	.6
National defense	2.0	2.4	7.1	.9
Nondefense	1.8	1.9	8.9	.1
State and local	3.8	3.5	5.7	3.4
Addendum: Gross domestic purchases less food and energy	1.1	1.5	2.8	1.8

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE: Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

These increases, which followed 18 consecutive quarterly decreases, largely reflected increases in the prices of software and of transportation equipment and smaller-than-usual decreases in computer prices.

Prices of government consumption expenditures and gross investment increased 2.4 percent after increasing 6.4 percent. Prices paid by the Federal Government increased 0.6 percent after increasing 7.7 percent; the first-quarter increase largely reflected the pay raise. Prices paid by State and local governments increased 3.4 percent after increasing 5.7 percent.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.5 percent after increasing 3.3 percent. The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. The larger increase in the GDP price index than in the price index for gross domestic purchases reflected import prices, which decreased slightly after increasing; the price of imported petroleum decelerated sharply.

Personal income

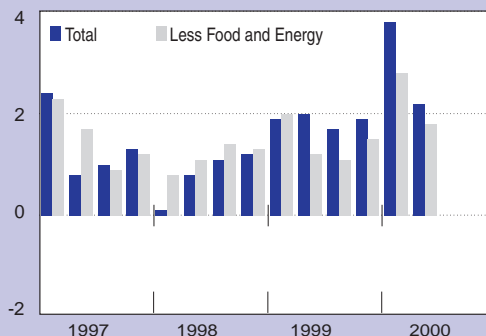
Real disposable personal income (DPI) increased 3.4 percent in the second quarter after increasing 1.9 percent in the first (chart 3). Most of the step-up was due to the slowdown in PCE prices; current-dollar DPI increased 5.8 percent after increasing 5.5 percent. The personal saving rate (saving as a percentage of current-dollar DPI) remained unchanged at 0.2 percent.

Personal income increased \$130.0 billion, about the same as in the first quarter. A step-up in pro-

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter

Percent



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

U.S. Department of Commerce, Bureau of Economic Analysis

prietors' income was offset by slowdowns in personal interest income and in wage and salary disbursements (table 5).

Proprietors' income increased \$15.8 billion after increasing \$4.3 billion. An upturn in farm proprietors' income more than accounted for the step-up. The upturn mainly reflected the pattern of subsidy payments, which increased \$0.7 billion after decreasing \$13.0 billion.

Wage and salary disbursements increased \$75.8 billion after increasing \$82.1 billion. The slowdown was accounted for by goods-producing industries other than manufacturing and by government.

Transfer payments to persons increased \$19.2 billion, about the same as in the first quarter. The second-quarter increase included benefit payments of \$6.4 billion (annual rate) that resulted from the new Senior Citizens' Freedom to Work Act of 2000. This act, which was signed into law April 7, 2000 and was effective retroactive to Janu-

ary 1, eliminated the "retirement earnings test" and allowed social security beneficiaries aged 65 and older to receive full benefits regardless of their earnings. Prior to enactment, benefits had been reduced \$1 for every \$3 earned over the annual earning limit, which was \$17,000 for calendar year 2000. The first-quarter increase in transfer payments had reflected a \$10.4 billion step-up in cost-of-living adjustments to benefits under social security and other Federal retirement and income support programs.

Table 5.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

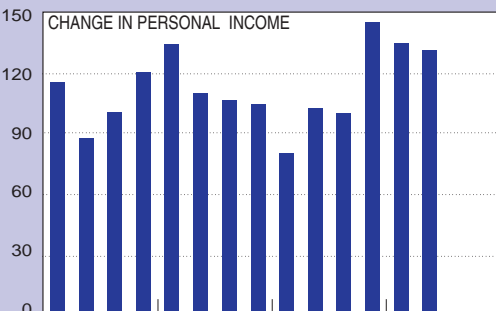
	Level	Change from preceding quarter			
		1999		2000	
	2000	III	IV	I	II
	II				
Wage and salary disbursements	4,736.2	76.6	71.3	82.1	75.8
Private industries	3,975.6	69.6	64.2	66.7	65.1
Goods-producing industries	1,144.7	16.2	13.4	19.7	13.8
Manufacturing	811.0	11.6	6.1	7.7	8.2
Distributive industries	1,093.9	20.0	19.5	21.5	23.0
Service industries	1,737.0	33.2	31.4	25.4	28.4
Government	760.6	7.2	7.0	15.4	10.7
Other labor income	520.5	4.1	4.6	6.6	6.5
Proprietors' income with IVA and CCAdj	709.7	-.7	29.9	4.3	15.8
Farm	22.0	-13.5	16.2	-12.6	2.9
Nonfarm	687.7	12.8	13.7	16.9	12.9
Rental income of persons with CCAdj	141.6	-9.1	9.6	-.6	-4.0
Personal dividend income	392.6	6.7	6.7	6.7	5.7
Personal interest income	1,027.7	18.1	19.6	22.6	16.1
Transfer payments to persons	1,066.1	8.1	7.1	19.5	19.2
Less: Personal contributions for social insurance	358.6	5.2	4.9	7.5	5.2
Personal income	8,235.8	98.8	143.8	133.5	130.0
Less: Personal tax and nontax payments	1,272.2	30.6	33.3	42.0	32.9
Equals: Disposable personal income	6,963.6	68.2	110.5	91.5	97.1
Less: Personal outlays	6,947.3	110.5	130.8	181.5	91.7
Equals: Personal saving	16.2	-42.5	-20.1	-90.0	5.2
Addenda: Special factors in personal income:					
In wages and salaries:					
Manufacturing bonus payments	0	0	2.5	-2.5	0
Boeing strike	0	0	0	-.4	.4
Due to Hurricane Floyd	0	.3	-3	0	0
Federal pay raise	7.0	0	0	7.0	0
Federal civilian retirement buyout payments .....	.1	0	-.1	.1	0
In farm proprietors' income:					
Federal subsidies	4.5	-7.9	16.6	-13.0	.7
Due to Hurricane Floyd	0	-.6	.6	0	0
In nonfarm proprietors' income:					
Due to Hurricane Floyd	0	-.4	.4	0	0
In rental income of persons with CCAdj:					
Federal subsidies	1.0	-1.8	3.7	-2.8	.1
Due to Hurricane Floyd	0	-4.7	4.5	.2	0
In transfer payments to persons:					
Social security earnings test	6.4	0	0	0	6.4
Social security retroactive payments	0	0	1.2	-1.2	0
Cost-of-living adjustments in Federal transfer programs	10.8	-4.2	.4	10.4	0
Earned Income Tax Credit and Child Tax Credit payments .....	.5	-2.3	0	.5	0
In personal contributions for social insurance:					
Tax rate, base, and law change	2.5	-2.0	0	2.5	0
In personal tax and nontax payments:					
Federal tax law changes	-5.4	3.8	0	-5.4	0
State tax law changes	-3.3	.1	3.9	-3.1	1.9

NOTE.—Most dollar levels are in NIPA table 2.1.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

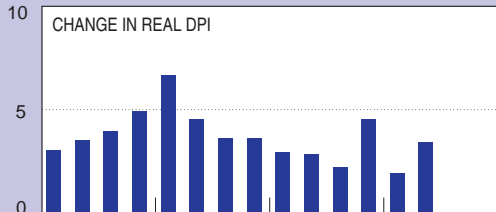
CHART 3

Selected Personal Income and Saving Measures

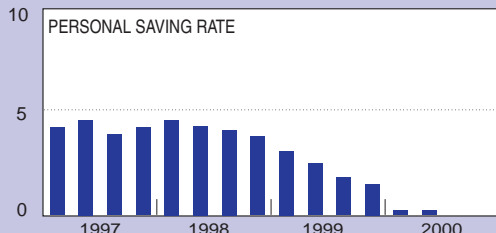
Billion \$



Percent



Percent



Note.—Changes are from preceding quarter; based on seasonally adjusted annual rates.

U.S. Department of Commerce, Bureau of Economic Analysis